

CITY OF COTTONWOOD FALLS
CHASE COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
REGULATORY BASIS FINANCIAL STATEMENT
YEAR ENDED DECEMBER 31, 2016

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

City of Cottonwood Falls
Chase County, Kansas

REGULATORY BASIS FINANCIAL STATEMENT
Year Ended December 31, 2016

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ALDRICH & COMPANY, LLC

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Mayor and City Council
City of Cottonwood Falls, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Cottonwood Falls, Kansas, as of and for the year ended December 31, 2016 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Cottonwood Falls, Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Cottonwood Falls, Kansas, as of December 31, 2016, or the changes in financial position and cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Cottonwood Falls, Kansas, as of December 31, 2016, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Other Matters***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, and schedule of regulatory basis receipts and disbursements-agency funds, (Schedules 1, 2, and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2015 Actual column presented in the individual fund schedule of regulatory basis receipts and expenditures-actual and budget (Schedule 2 as listed in the table of contents) is also presented for comparative analysis and was not a required part of the 2015 basic financial statement upon which we rendered an unmodified opinion dated July 26, 2016. The 2015 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of the Kansas Department of Administration at the following link <http://admin.ks.gov/offices/chief-financial-officer/municipal-services>. Such 2015 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statement. The 2015 comparative information was subjected to the auditing procedures applied in the audit of the 2015 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2015 basic financial statement or to the 2015 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 comparative information is fairly stated in all material respects in relation to the 2015 basic financial statement as a whole, on the basis of accounting described in Note 1.

Aldrich & Company, LLC

Aldrich & Company, LLC
July 5, 2017

City of Cottonwood Falls
Chase County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2016

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 88,763		\$ 407,617	\$ 359,432	\$ 136,948	\$ 19,448	\$ 156,396
Special Purpose Funds:							
Sales Tax Fund	176,653		155,386	69,838	262,201		262,201
Special Highway	21,642		23,202	4,604	40,240	366	40,606
Special Parks & Recreation	4,935		1,619	1,500	5,054		5,054
Municipal Equipment Reserve Fund	940		1,340	0	2,280		2,280
Capital Improvement Reserve Fund	7,808		0	0	7,808		7,808
Swope Park Equipment	7,261		0	0	7,261		7,261
Streetscape	249		400	219	430		430
Community Building Equipment	85		0	0	85		85
Veterans Memorial	8,809		980	837	8,952		8,952
Cottonwood Falls Volunteers	80		0	0	80		80
Pool Renovation Fund	5,000		0	0	5,000		5,000
Bill North Courtyard Fund	2,760		0	600	2,160		2,160
Chase Disc Golf Fund	5,363		12,910	14,441	3,832	0	3,832
Christmas Lights Fund	1,210		0	1,129	81	0	81
Bond and Interest Fund:							
Bond and Interest	0		0	0	0		0
Business Funds							
Sewer Fund	63,968		40,593	46,125	58,436	727	59,163
Solid Waste Fund	77,578		157,944	144,711	90,811	7,235	98,046
Water Fund	326,371	0	317,647	303,269	340,749	16,006	356,755
Total Reporting Entity (Excluding Agency Funds)	\$ 799,475	\$ 0	\$ 1,119,638	\$ 946,705	\$ 972,408	\$ 43,782	\$ 1,016,190

Composition of Cash:

Checking	\$ 765,072
Certificates of Deposit	253,433
Petty cash - City Clerk	150
	<u>1,018,655</u>
Less: Agency Funds per Schedule 3	(2,465)
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 1,016,190</u>

The accompanying notes to the financial statement are an integral part of this statement.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Financial Reporting Entity

The City of Cottonwood Falls is a governmental entity governed by an elected five-member council and mayor. The City's major operations include public safety and transportation, culture and recreation, and general administrative services. The City also operates three major business type activities: a sewer system, a solid waste system, and a water system.

This financial statement presents the City of Cottonwood Falls (the municipality) but does not include any related municipal entities of the City of Cottonwood Falls.

Regulatory Basis Fund Types

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds compromise the financial activities of the City.

General Fund - the chief operating fund. It is used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than capital projects and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e. enterprise and internal service fund etc.).

Agency Fund – funds used to report assets held by the municipal reporting entity in a purely custodial capacity.

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investment balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement of application of generally accepted accounting principles and allowing the city to use the regulatory basis of accounting.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Use of Estimates

The preparation of the financial statement in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect the reported amounts of cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures at the date of the financial statement. Accordingly, actual results could differ from those estimates.

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting in which regulatory receipts are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, trust funds, and the following special purpose funds: equipment reserve, capital improvement reserve, streetscape, veterans memorial, Cottonwood Falls volunteers funds, pool renovation fund, Bill North courtyard fund, Chase disc golf and Christmas lights fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance-Related Legal and Contractual Provisions.

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and legal representatives of the municipality.

K.S.A 9-1402 and K.S.A. 9-1405 require that the city's deposits with financial institutions be adequately secured at all times. The city's deposits were under-secured during one month of the year.

Management is not aware of any other items of noncompliance with Kansas statutes.

NOTE 3 - DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under 9-1402 and 9-1405.

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. Deposits were legally secured at December 31, 2016.

At year-end, the carrying amount of the City's deposits was \$1,018,505 and the bank balance was \$1,019,663. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$500,000 was covered by federal depository insurance and \$519,663 was collateralized with securities held by the pledging financial institutions' agents in the City's name.

The city held no investments at December 31, 2016.

NOTE 4 - PROPERTY TAXES

The city certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20th of the same year, and the second installment is due May 10 of the subsequent year. The county treasurer collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 5 – INTERFUND TRANSFERS

There were no operating transfers in 2016.

NOTE 6 – CAPITAL PROJECTS

The City completed its water line improvement project in 2015. The city was awarded a \$500,000 Community Development Block Grant and a \$1.1 million loan from the Kansas Department of Health & Environment to finance the improvements. The engineering, administrative and construction expenditures on the project totaled \$1,656,858.

NOTE 7 - LONG-TERM DEBT

KDHE Loan

The City of Cottonwood Falls entered into a loan agreement with the Kansas Department of Health and Environment on October 1, 2012, to finance a portion of the cost to replace waterlines, associated service lines and meters in the city. The original authorized loan amount was \$1,100,000, which was amended on October 19, 2015 to \$1,166,876. The City made a payment of \$34,302 on February 1, 2015. After that, semi-annual principal and interest payments in the amount of \$36,250 began on August 1, 2015 and are due on February 1 and August of each year with the final payment to be made on August 1, 2034. Payments on this loan are to be made from revenues of the water fund.

Lease Agreements

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a 2008 Chevy Pickup on April 28, 2015 for \$11,000. The city made an initial payment of \$1,000 on April 28, 2015 and then three annual payments of \$3,569 are scheduled, beginning April 28, 2016. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on the lease are split between the general, water and solid waste funds.

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a trash dumpsters/poly carts on March 16, 2015 for \$22,160. The city made an initial payment of \$4,160 on March 16, 2015 and then two annual payments of \$9,441 are scheduled, beginning March 16, 2016. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on this lease are made from the solid waste fund.

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a 2008 Kenworth trash truck on January 18, 2016 for \$73,200. The city made an initial payment of \$13,200 on January 18, 2016 and then sixteen quarterly payments of \$4,056 are scheduled, beginning April 18, 2016. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on this lease are made from the solid waste fund.

The City entered into a lease agreement with Cottonwood Valley Bank for the purchase of a Hustler mower on September 14, 2016 for \$19,170. The city made an initial payment of \$3,170 on September 14, 2016 and then five annual payments of \$3,200 principal plus interest are scheduled, beginning September 14, 2017. The lease terminates in any budgeted year in which insufficient appropriated funds exist to meet the lease obligation, and the City must return the leased equipment to the lessor. Payments on this lease are made from the general, water and sewer funds.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 7 - LONG-TERM DEBT (CONT)

Changes in long term liabilities for the year ended December 31, 2016 were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance	Additions	Reductions/ Payments	Ending Balance	Interest Paid
KDHE Loan									
Water Loan	2.25%	10/1/2012	\$ 1,166,876	8/1/2034	\$ 1,112,758	\$ 0	\$ 48,080	\$ 1,064,678	\$24,180
Capital Leases:									
Dumpsters	3.25%	3/16/2015	22,160	3/16/2017	18,000	0	8,856	9,144	585
Chevy PU	3.50%	4/28/2015	11,000	4/28/2018	10,000	0	3,219	6,781	350
Huster Mower	3.75%	9/14/2016	19,170	9/14/2021	0	19,170	3,170	16,000	0
Trash Truck	3.75%	1/18/2016	73,200	1/18/2020	0	73,200	23,778	49,422	1,589
					<u>\$ 1,140,758</u>	<u>\$ 92,370</u>	<u>\$ 87,103</u>	<u>\$ 1,146,025</u>	<u>\$26,704</u>

Current maturities on long term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2034</u>	<u>Total</u>
PRINCIPAL									
KDHE Loan									
Water Project loan	\$ 48,577	\$ 49,676	\$ 50,800	\$ 51,949	\$ 53,125	\$ 284,207	\$ 317,849	\$ 208,495	\$ 1,064,678
Capital Leases:									
Hustler Mower	3,200	3,200	3,200	3,200	3,200	0	0	0	16,000
2008 Trash Truck	14,573	15,128	15,703	4,018	0	0	0	0	49,422
2008 Chevy Pickup	3,332	3,449	0	0	0	0	0	0	6,781
Dumpsters/Poly Carts	<u>9,144</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,144</u>
Total principal	<u>78,826</u>	<u>71,453</u>	<u>69,703</u>	<u>59,167</u>	<u>56,325</u>	<u>284,207</u>	<u>317,849</u>	<u>208,495</u>	<u>1,146,025</u>
INTEREST									
KDHE Loan									
Water Project loan	23,683	22,584	21,460	20,311	19,135	77,094	43,453	8,286	236,006
Capital Leases:									
Hustler Mower	608	487	365	244	122	0	0	0	1,826
2008 Trash Truck	1,650	1,096	520	38	0	0	0	0	3,304
2008 Chevy Pickup	237	121	0	0	0	0	0	0	358
Dumpsters/Poly Carts	<u>297</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>297</u>
Total interest	<u>26,475</u>	<u>24,288</u>	<u>22,345</u>	<u>20,593</u>	<u>19,257</u>	<u>77,094</u>	<u>43,453</u>	<u>8,286</u>	<u>241,791</u>
Total Principal & Interest	<u>\$ 105,301</u>	<u>\$ 95,741</u>	<u>\$ 92,048</u>	<u>\$ 79,760</u>	<u>\$ 75,582</u>	<u>\$ 361,301</u>	<u>\$ 361,302</u>	<u>\$ 216,781</u>	<u>\$ 1,387,816</u>

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 8 – OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences

The City employees earn and accumulate up to 5 days of vacation during the first year of employment, earn 10 days and accumulate 15 days up to 7 years of employment, and earn 15 days and accumulate 15 days thereafter. Employees having accumulated more vacation days before the August 2, 1993 adoption of this policy are allowed to carry forward those days under the prior policy. The City's full-time employees earn up to 12 days per year of sick time and part-time employees earn up to 6 days per year. No employee may accumulate more than 100 days of sick leave and no sick pay is paid upon separation of service. Compensated absence payments are made from the fund that corresponds to the employees duties.

Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Plan description. The City of Cottonwood Falls participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined pension benefit plan as provided by K.S.A. 74-4901, et seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009 and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of section 414(h) of the Internal Revenue Code.

State law provides that employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate through March 31, 2016 with a 0% moratorium until June 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 9.18% for the fiscal year ended December 31, 2016. Contributions to the pension plan from the City of Cottonwood Falls were \$17,584 for the year ended December 31, 2016

Net Pension Liability - At December 31, 2016, the City of Cottonwood Falls' proportionate share of the collective net pension liability reported by KPERS was \$168,394. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The City of Cottonwood Falls' proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

City of Cottonwood Falls
Chase County, Kansas

Notes to the Financial Statement
December 31, 2016

NOTE 10 – RISK MANAGEMENT

The city is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

NOTE 11 – SUBSEQUENT EVENTS

On April 15, 2016, the City of Cottonwood Falls was awarded a grant from the Kansas Department of Transportation (KDOT) to make needed repairs and improvements to Pearl Street. The total project cost is estimated at \$780,670, which will be funded by the KDOT grant in the amount of \$573,656 and the local match of \$207,014 is anticipated to be funded with city sales tax collections. The project is still in the design and engineering phase.

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

City of Cottonwood Falls
Chase County, Kansas

Schedule 1

Summary of Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016

<u>FUNDS</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General Fund	\$ 556,127	\$ 0	\$ 556,127	\$ 359,432	\$ (196,695)
Special Purpose Funds:					
Sales Tax	321,802	0	321,802	69,838	(251,964)
Special Highway	45,803	0	45,803	4,604	(41,199)
Special Parks & Recreation	6,373	0	6,373	1,500	(4,873)
Bond and Interest Funds:					
Bond and Interest Fund	0	0	0	0	0
Business Funds:					
Sewer Fund	93,368	0	93,368	46,125	(47,243)
Solid Waste Fund	253,204	0	253,204	144,711	(108,493)
Water Fund	622,118	0	622,118	303,269	(318,849)

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-A

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

GENERAL FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
County Tax	\$ 316,861	\$ 317,226	\$ 322,679	\$ (5,453)
Liquor Tax	1,218	1,619	1,285	334
Community Building Rent	2,700	2,715	4,600	(1,885)
Court Fees	316	208	380	(172)
Franchise Fees	41,300	39,740	47,000	(7,260)
Interest on Idle Funds	1,397	1,355	1,500	(145)
Licenses and Permits	852	646	400	246
Municipal Building Rental	5,172	5,602	5,170	432
Park Rental	3,045	2,789	1,700	1,089
Street	150	70	0	70
Swimming Pool	18,784	18,883	20,000	(1,117)
Equipment Sale	0	0	0	0
Misc Reimbursements and Other	16,021	16,764	19,554	(2,790)
Transfers in	770	0	0	0
Total Receipts	408,586	407,617	424,268	(16,651)
Expenditures				
General Government	197,298	130,284	123,000	7,284
Streets	56,106	40,457	64,000	(23,543)
Airport	3,360	3,546	2,600	946
Pool	44,211	47,537	45,500	2,037
Parks	31,747	39,523	37,500	2,023
Public Safety	22,542	24,734	29,200	(4,466)
Employee Benefits	45,985	42,619	50,750	(8,131)
Law Enforcement	9,000	9,000	9,000	0
Housing Authority	9,600	9,600	9,600	0
Industrial Development	6,000	6,000	6,000	0
Noxious Weed	0	0	0	0
Dump	2,118	1,979	1,000	979
Neighborhood Revitalization Refunds	1,812	4,153	4,288	(135)
Capital Outlay	0	0	167,689	(167,689)
Water fund expenditures	0	0	6,000	(6,000)
Transfers Out	0	0	0	0
Total Expenditures	429,779	359,432	556,127	(196,695)
Receipts Over (Under) Expenditures	(21,193)	48,185	\$ (131,859)	\$ 180,044
Unencumbered Cash, January 1	109,149	88,763		
Prior Year Cancelled Encumbrance	807	0		
Unencumbered Cash, December 31	\$ 88,763	\$ 136,948		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-B

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

SALES TAX FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Sales Tax	\$ 143,575	\$ 155,386	\$ 136,500	\$ 18,886
Sidewalk Reimbursements	0	0	0	0
Total Receipts	143,575	155,386	136,500	18,886
Expenditures				
Personal	0	0	15,000	(15,000)
Commodities	10,952	2,347	0	2,347
Contractual	26,276	60,148	80,000	(19,852)
Capital outlay	78,329	7,343	226,802	(219,459)
Total Expenditures	115,557	69,838	321,802	(251,964)
Receipts Over (Under) Expenditures	28,018	85,548	<u>\$ (185,302)</u>	<u>\$ 270,850</u>
Unencumbered Cash, January 1	148,635	176,653		
Unencumbered Cash, December 31	<u>\$ 176,653</u>	<u>\$ 262,201</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-C

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

SPECIAL HIGHWAY (GAS TAX) FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
State of Kansas gas tax	\$ 23,000	\$ 23,202	\$ 23,500	\$ (298)
Total Receipts	<u>23,000</u>	<u>23,202</u>	<u>23,500</u>	<u>(298)</u>
Expenditures				
Contractual Service	0	1,158	36,600	(35,442)
Commodities	3,261	3,446	9,024	(5,578)
Capital outlay	<u>0</u>	<u>0</u>	<u>179</u>	<u>(179)</u>
Total Expenditures	<u>3,261</u>	<u>4,604</u>	<u>45,803</u>	<u>(41,199)</u>
Receipts Over (Under) Expenditures	19,739	18,598	<u><u>\$ (22,303)</u></u>	<u><u>\$ 40,901</u></u>
Unencumbered Cash, January 1	<u>1,903</u>	<u>21,642</u>		
Unencumbered Cash, December 31	<u><u>\$ 21,642</u></u>	<u><u>\$ 40,240</u></u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-D

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

SPECIAL PARKS & RECREATION FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Liquor Tax	\$ 1,218	\$ 1,619	\$ 1,285	\$ 334
Total Receipts	1,218	1,619	1,285	334
Expenditures				
Parks & Recreation	0	1,500	6,373	(4,873)
Total Expenditures	0	1,500	6,373	(4,873)
Receipts Over (Under) Expenditures	1,218	119	<u>\$ (5,088)</u>	<u>\$ 5,207</u>
Unencumbered Cash, January 1	3,717	4,935		
Unencumbered Cash, December 31	<u>\$ 4,935</u>	<u>\$ 5,054</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-E

Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

MUNICIPAL EQUIPMENT RESERVE FUND

	Prior Year Actual	Current Year Actual
Receipts		
Miscellaneous	\$ 399	\$ 1,340
Operating Transfers	<u>0</u>	<u>0</u>
Total Receipts	<u>399</u>	<u>1,340</u>
Expenditures		
Capital Outlay	<u>0</u>	<u>0</u>
Total expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	399	1,340
Unencumbered Cash, January 1	<u>541</u>	<u>940</u>
Unencumbered Cash, December 31	<u><u>\$ 940</u></u>	<u><u>\$ 2,280</u></u>

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-F

Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

CAPITAL IMPROVEMENT RESERVE FUND

	Prior Year Actual	Current Year Actual
Receipts		
Grant Proceeds	\$ 11,525	\$ 0
Loan Proceeds	422,444	0
Operating Transfers	<u>0</u>	<u>0</u>
Total Receipts	433,969	0
Expenditures		
Water Project Improvements	27,812	0
Interest paid	<u>0</u>	<u>0</u>
Total Expenditures	<u>27,812</u>	<u>0</u>
Receipts Over (Under) Expenditures	406,157	0
Unencumbered Cash, January 1	(430,698)	7,808
Prior Year Cancelled Encumbrances	<u>32,349</u>	<u>0</u>
Unencumbered Cash, December 31	<u>\$ 7,808</u>	<u>\$ 7,808</u>

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-G

Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

SWOPE PARK EQUIPMENT FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 0	\$ 0
State of Kansas	0	0
	<u>0</u>	<u>0</u>
Total Receipts	<u>0</u>	<u>0</u>
Expenditures		
Capital Outlay	0	0
	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	<u>7,261</u>	<u>7,261</u>
Unencumbered Cash, December 31	<u>\$ 7,261</u>	<u>\$ 7,261</u>

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-H

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

STREETSCAPE FUND

	Prior Year Actual	Current Year Actual
Receipts		
Contributions	\$ 0	\$ 400
Other Receipts	0	0
Total Receipts	0	400
Expenditures		
Contractual Service	0	75
Commodities	297	144
Total Expenditures	297	219
Receipts Over (Under) Expenditures	(297)	181
Unencumbered Cash, January 1	546	249
Unencumbered Cash, December 31	<u>\$ 249</u>	<u>\$ 430</u>

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-I

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

COMMUNITY BUILDING EQUIPMENT FUND

	Prior Year Actual	Current Year Actual
Receipts		
Miscellaneous receipts	\$ 0	\$ 0
Total Receipts	0	0
Expenditures		
Equipment	0	0
Total Expenditures	0	0
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	85	85
Unencumbered Cash, December 31	<u>\$ 85</u>	<u>\$ 85</u>

City of Cottonwood Falls
Chase County, Kansas

Statement 2-J

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

VETERANS MEMORIAL FUND

	Prior Year Actual	Current Year Actual
Receipts		
Contributions	\$ 3,235	\$ 655
Other	115	325
Total Receipts	3,350	980
Expenditures		
Contractual Service	0	43
Commodities	1,685	794
Total Expenditures	1,685	837
Receipts Over (Under) Expenditures	1,665	143
Unencumbered Cash, January 1	7,144	8,809
Unencumbered Cash, December 31	\$ 8,809	\$ 8,952

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-K

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

COTTONWOOD FALLS VOLUNTEERS

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 0	\$ 0
Total Receipts	0	0
Expenditures		
Contractual	0	0
Total Expenditures	0	0
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	80	80
Unencumbered Cash, December 31	<u>\$ 80</u>	<u>\$ 80</u>

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-L

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

POOL RENOVATION FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 2,000	\$ 0
Total Receipts	<u>2,000</u>	<u>0</u>
Expenditures		
Capital Outlay	<u>0</u>	<u>0</u>
Total Expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	2,000	0
Unencumbered Cash, January 1	<u>3,000</u>	<u>5,000</u>
Unencumbered Cash, December 31	<u>\$ 5,000</u>	<u>\$ 5,000</u>

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-M

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

BILL NORTH COURTYARD FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 0	\$ 0
Total Receipts	0	0
Expenditures		
Commodities	0	0
Contractual	675	600
Total Expenditures	675	600
Receipts Over (Under) Expenditures	(675)	(600)
Unencumbered Cash, January 1	3,435	2,760
Unencumbered Cash, December 31	\$ 2,760	\$ 2,160

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-N

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

CHASE DISC GOLF FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 10,575	\$ 11,590
Other	0	1,320
Total Receipts	10,575	12,910
Expenditures		
Commodities	212	2,429
Contractual	0	1,480
Capital Outlay	5,000	10,532
Total Expenditures	5,212	14,441
Receipts Over (Under) Expenditures	5,363	(1,531)
Unencumbered Cash, January 1	0	5,363
Unencumbered Cash, December 31	\$ 5,363	\$ 3,832

City of Cottonwood Falls
Chase County, Kansas

Schedule 2-O

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

CHRISTMAS LIGHTS FUND

	Prior Year Actual	Current Year Actual
Receipts		
Donations	\$ 9,886	\$ 0
Reimbursements	1,753	0
Total Receipts	11,639	0
Expenditures		
Commodities	7,564	872
Contractual	2,865	257
Total Expenditures	10,429	1,129
Receipts Over (Under) Expenditures	1,210	(1,129)
Unencumbered Cash, January 1	0	1,210
Unencumbered Cash, December 31	\$ 1,210	\$ 81

City of Cottonwood Falls
Chase County, Kansas

Statement 2-P

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

BOND AND INTEREST FUND

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Receipts				
County Tax	\$ 0	\$ 0	\$ 0	\$ 0
Operating Transfers	0	0	0	0
Total Receipts	0	0	0	0
Expenditures				
Principal	0	0	0	0
Interest	0	0	0	0
Commission and Postage	0	0	0	0
Transfer Out	770	0	0	0
Total Expenditures	770	0	0	0
Receipts Over (Under) Expenditures	(770)	0	<u>\$ 0</u>	<u>\$ 0</u>
Unencumbered Cash, January 1	770	0		
Unencumbered Cash, December 31	<u>\$ 0</u>	<u>\$ 0</u>		

City of Cottonwood Falls
Chase County, Kansas

Statement 2-Q

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

SEWER FUND

	Prior Year Actual	Current Year		Variance Over Over (Under)
		Actual	Budget	
Receipts				
Charges for Services	\$ 39,732	\$ 40,593	\$ 40,100	\$ 493
Other Receipts	0	0	550	(550)
Total Receipts	39,732	40,593	40,650	(57)
Expenditures				
Personal	15,420	19,310	23,000	(3,690)
Contractual	11,362	18,929	21,000	(2,071)
Commodities	1,872	3,692	1,100	2,592
Capital Outlay	328	4,194	48,268	(44,074)
Total Expenditures	28,982	46,125	93,368	(47,243)
Receipts Over (Under) Expenditures	10,750	(5,532)	<u>\$ (52,718)</u>	<u>\$ 47,186</u>
Unencumbered Cash, January 1	53,218	63,968		
Unencumbered Cash, December 31	<u>\$ 63,968</u>	<u>\$ 58,436</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Statement 2-R

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

SOLID WASTE FUND

	Prior Year Actual	Current Year		Variance Over Under
	Actual	Actual	Budget	(Under)
Receipts				
Charges for Services	\$ 134,754	\$ 157,772	\$ 162,400	\$ (4,628)
Other	1,304	172	200	(28)
Total Receipts	136,058	157,944	162,600	(4,656)
Expenditures				
Personal	55,526	59,277	68,500	(9,223)
Contractual	32,586	28,104	44,180	(16,076)
Commodities	6,028	22,165	7,100	15,065
Capital Outlay	11,019	35,165	133,424	(98,259)
Total Expenditures	105,159	144,711	253,204	(108,493)
Receipts Over (Under) Expenditures	30,899	13,233	<u>\$ (90,604)</u>	<u>\$ 103,837</u>
Unencumbered Cash, January 1	46,679	77,578		
Unencumbered Cash, December 31	<u>\$ 77,578</u>	<u>\$ 90,811</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Statement 2-S

Schedule of Receipts and Expenditures – Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2016
(With Comparative Actual Total for the Prior Year Ended December 31, 2015)

WATER FUND

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Receipts				
Charges for Services	\$ 306,703	\$ 311,759	\$ 306,600	\$ 5,159
Reimbursements	0	4,890	0	4,890
Miscellaneous	4,006	998	430	568
Total Receipts	310,709	317,647	307,030	10,617
Expenditures				
Personal	75,785	75,081	65,000	10,081
Contractual	28,503	10,582	28,000	(17,418)
Commodities	53,272	29,202	20,000	9,202
Water Purchased	0	114,173	200,000	(85,827)
Capital Outlay	1,582	1,971	236,858	(234,887)
Loan Payments/Reserve	70,552	72,260	72,260	0
Total Expenditures	229,694	303,269	622,118	(318,849)
Receipts Over (Under) Expenditures	81,015	14,378	<u>\$ (315,088)</u>	<u>\$ 329,466</u>
Unencumbered Cash, January 1	245,356	326,371		
Unencumbered Cash, December 31	<u>\$ 326,371</u>	<u>\$ 340,749</u>		

See Accompanying Auditors' Report.

City of Cottonwood Falls
Chase County, Kansas

Schedule 3

Summary of Receipts and Disbursements
Regulatory Basis
For the Year Ended December 31, 2016

AGENCY FUNDS

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending Cash Balance</u>
Sales Tax	\$ 871	\$ 2,775	\$ 2,814	\$ 832
Customer Deposits	1,550	0	150	1,400
Payroll Tax	<u>307</u>	<u>65,841</u>	<u>65,915</u>	<u>233</u>
Total	<u>\$ 2,728</u>	<u>\$ 68,616</u>	<u>\$ 68,879</u>	<u>\$ 2,465</u>